FARM • CREDIT • CORPORATION

Farmland Values

Spring 1998

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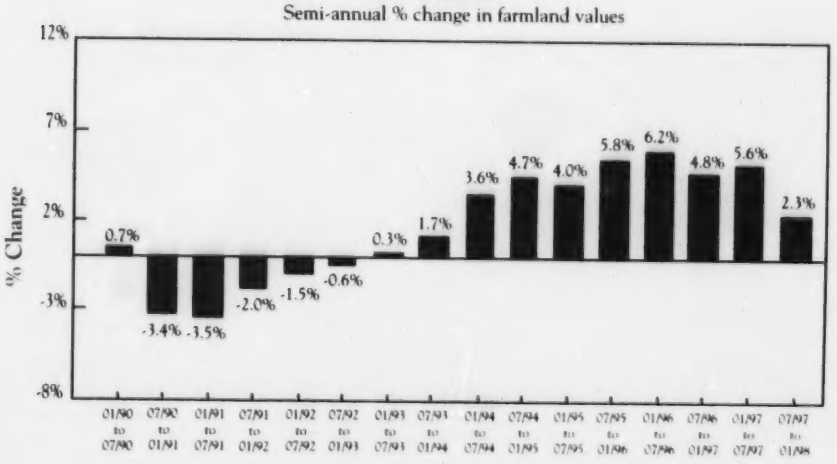
Farm Credit Corporation (FCC) estimates that Canadian farmland values rose 2.3 per cent between July 1997 and January 1998. This increase represents a continued upward trend in farmland values. The increase, however, is significantly smaller than the 5.6 per cent increase recorded in the previous six-month period.

Canada

Semi-annual % change in farmland values



FCC Farm Credit Corporation SCA Société du crédit agricole

Methodology

In 1985, FCC established a system of 245 benchmark farm properties to monitor variations in bareland values across Canada. Since 1990, benchmark properties have been appraised semi-annually as of January 1 and July 1. These selected parcels represent the most prevalent classes of agricultural soil in each census district.

The benchmark properties are zoned for agriculture, which represents the current use of the land. A weighting is assigned to each property and to each province based on the improved farmland area recorded by the 1991 Census of Agriculture.

The appraisal process consists of updating the estimated market value of each benchmark property semi-annually. FCC appraisers estimate the market value using recent bareland comparable sales. These sales must be arm's length transactions. Once sales are selected, they are reviewed, analyzed and adjusted to benchmark properties. Individual values are reconciled before accredited appraisers review the appraisal reports.

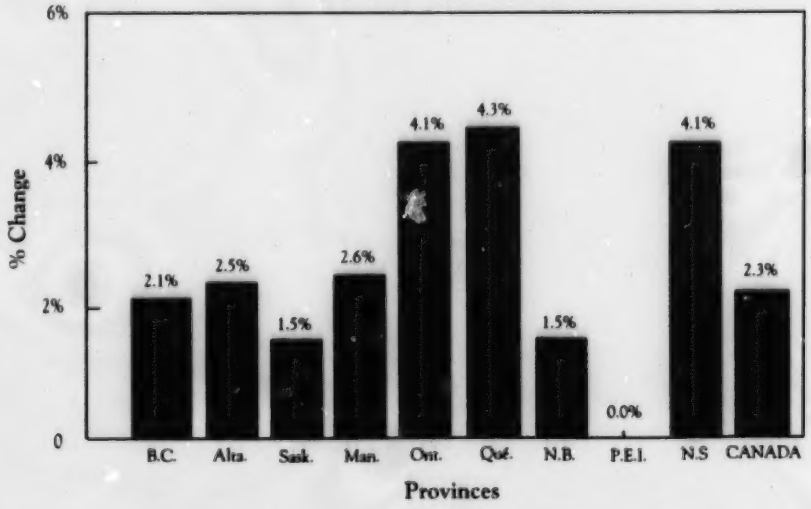
Provincial trends

Canadian farmland value trends vary considerably from province to province, reflecting different factors in the agricultural economy. Québec, Nova Scotia and Ontario recorded semi-annual increases in the four per cent range. Manitoba, Alberta and British Columbia recorded increases of approximately two per cent, while Saskatchewan and New Brunswick increased about one per cent. Prince Edward Island experienced no change.

"Canadian farmland value trends vary considerably from province to province."

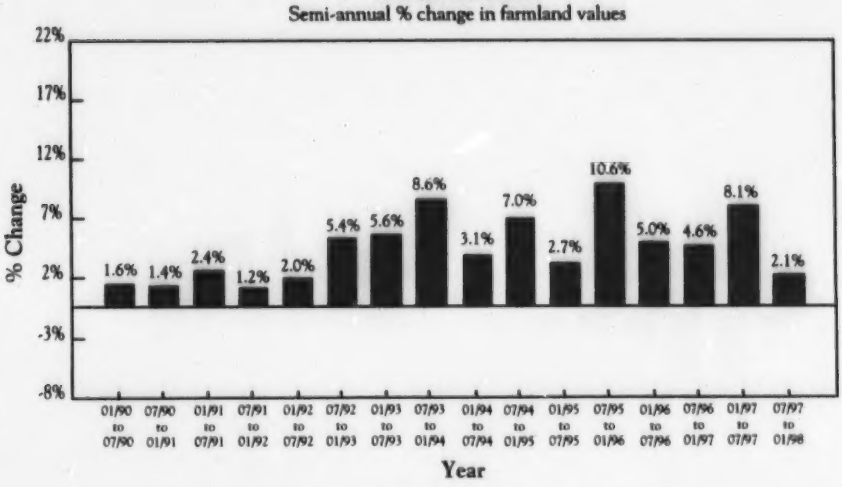
Provincial changes in farmland values are summarized in the following graphs:

Provincial comparison of farmland values
July 1, 1997 to January 1, 1998



British Columbia

Semi-annual % change in farmland values

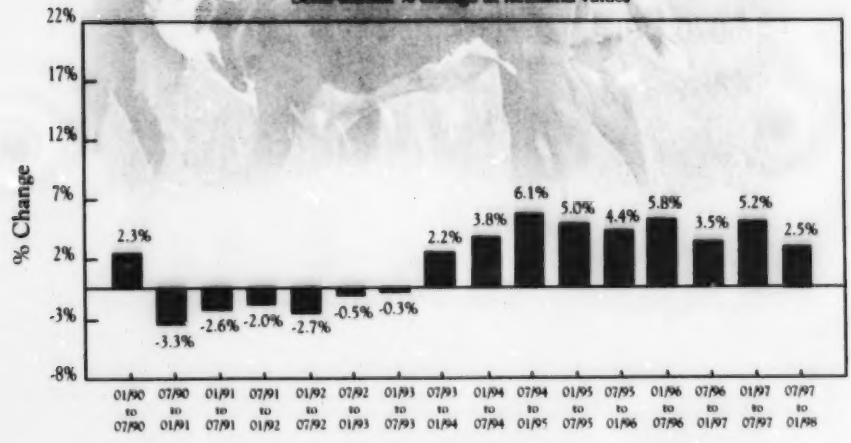


Over the last year, land values in British Columbia increased by 10.2 per cent (8.1 per cent in the first half, followed by a modest 2.1 per cent increase in the last six months of 1997). Demand for vegetable and berry land dropped significantly, largely due to wet conditions during the growing season and projections for lower berry prices in 1998. There continued to be strong demand for land suitable for vineyards, while the demand for forage land was stable.

"The demand for forage land was stable."

Alberta

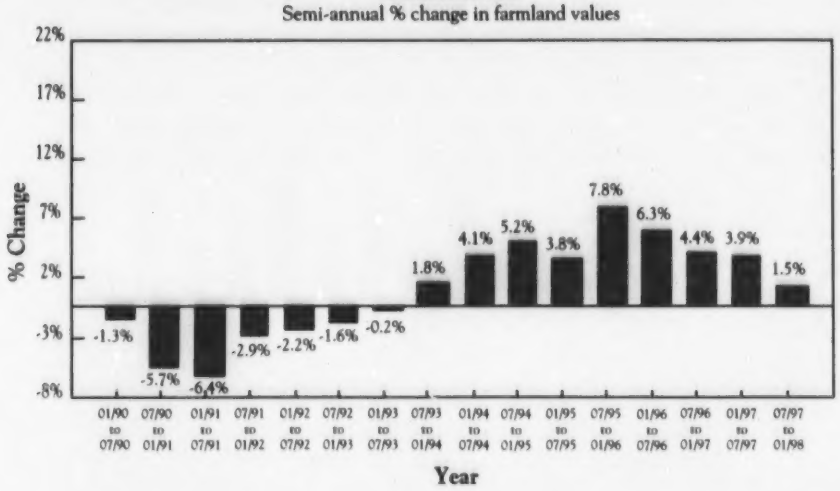
Semi-annual % change in farmland values



The demand for land in Alberta increased due to significant expansion in the livestock and specialty crop industries. The grain and oilseed areas generally experienced a stable demand, although poor harvest areas saw an increase in land offered for sale. The off-farm economy remained relatively strong.

Saskatchewan

Semi-annual % change in farmland values

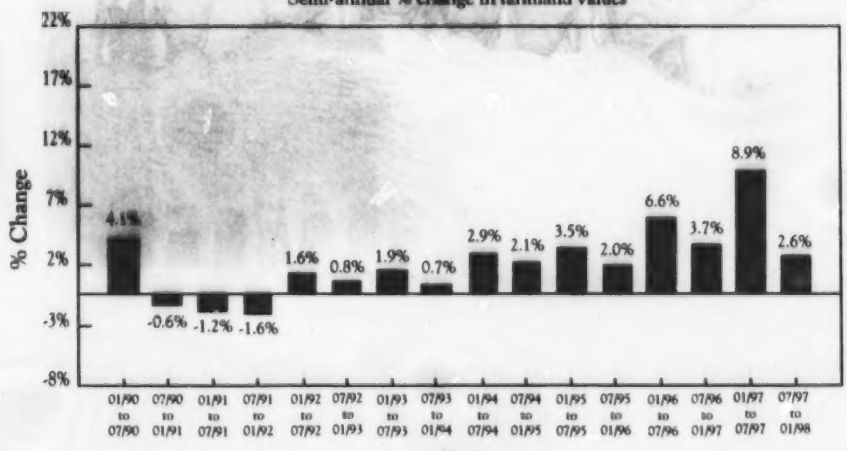


"Land prices appear to have leveled off at current values."

Land values in Saskatchewan increased 1.5 per cent in the last six months of 1997. Demand was steady, without the price increases or aggressive bidding of the previous four years. Higher freight costs, lower-than-expected cereal grain prices and pessimistic cereal grain forecasts influenced farmers' buying decisions. Land prices appear to have leveled off at current values.

Manitoba

Semi-annual % change in farmland values



Overall, land values in Manitoba increased. However, increases were lower than in the previous reporting period. Throughout the province, localized areas showed strong demand for land. Land values in southeastern Manitoba continued to rise due to development of intensive livestock operations. Potato expansion continued to put upward pressure on land with irrigation capability, suitable for growing potatoes.

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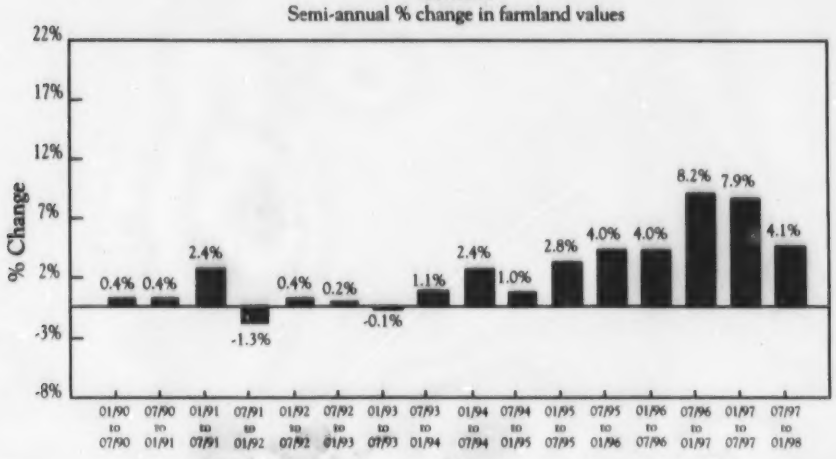
Ontario

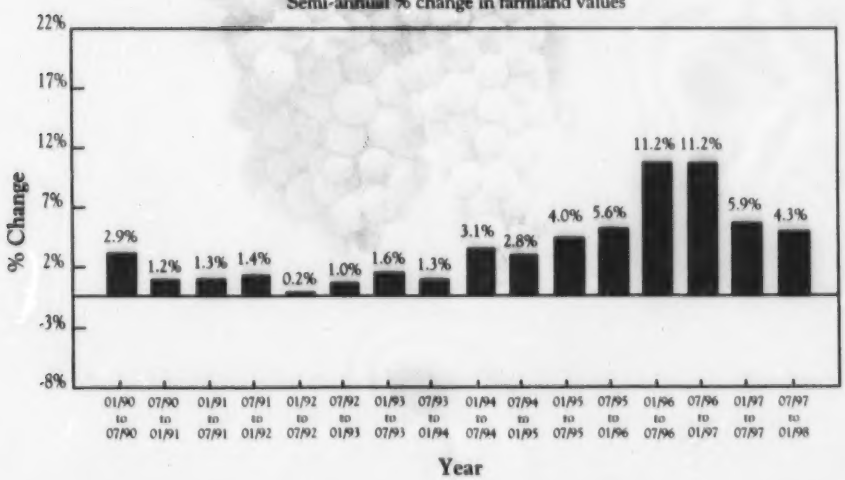
Semi-annual % change in farmland values



The increase in land values that began in southwestern Ontario continued to spread to central and eastern parts of the province. In localized market areas, aggressive farmers bid up land values to expand their land base. The number of sales remained relatively high, indicating good market activity. Continued expansion in livestock operations created additional demand for land.

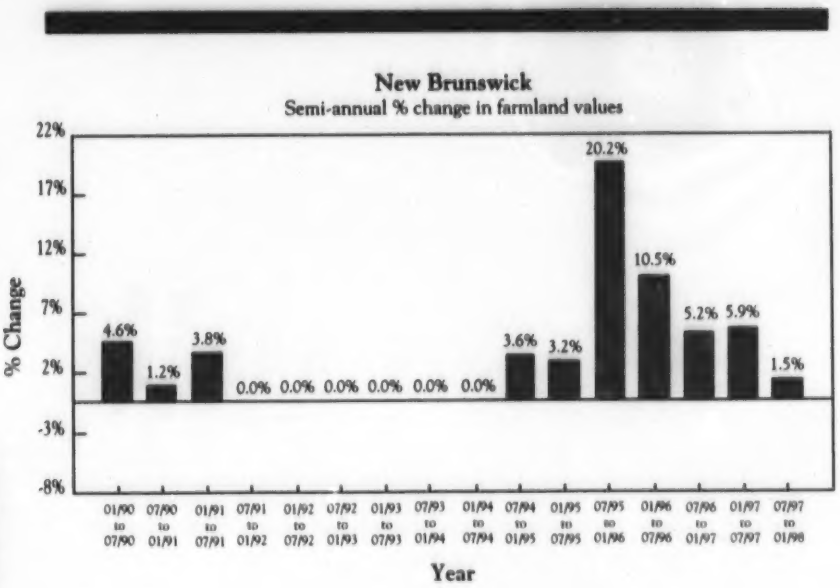
Québec

Semi-annual % change in farmland values



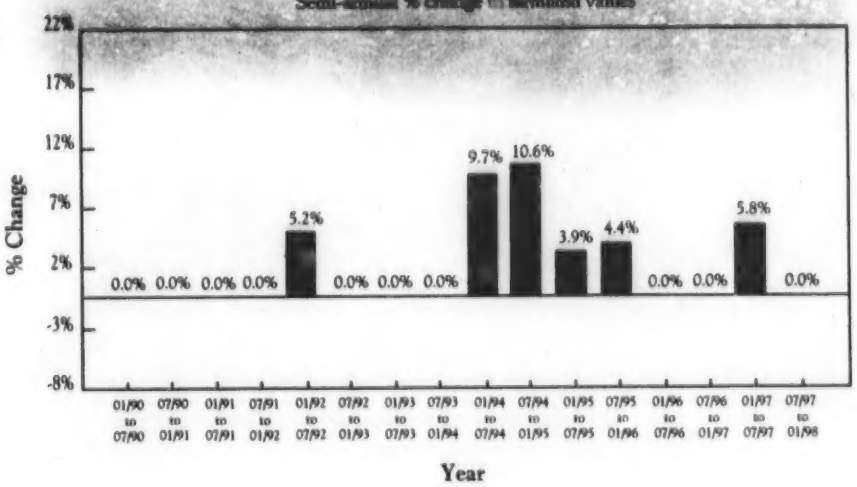
Land values in Québec rose 4.3 per cent during the reporting period, compared to 5.9 per cent in the previous six months. Weaker commodity prices resulted in less competition between buyers. Prices stabilized toward the end of the reporting period. There continued to be demand for land suitable for intensive livestock operations.

"Prices stabilized toward the end of the reporting period."

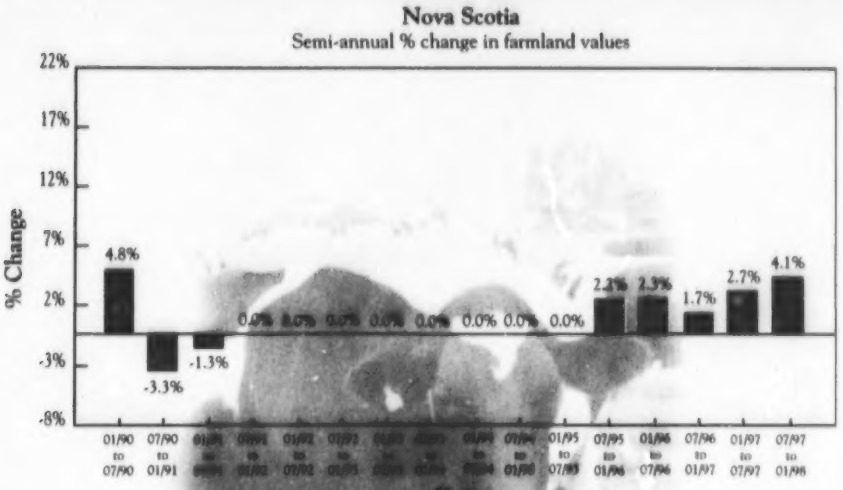


The most significant factor affecting land values in New Brunswick was demand from the potato sector, where expansion required larger parcels of land to accommodate crop rotation. In addition, farmers endeavoured to be more self-sufficient in grain production following the withdrawal of the Feed Fright Assisiance program. Costs escalated for clearing and developing land, resulting in competition for existing crop land.

"The price of good crop land remained steady."



The demand for additional land was also felt in Prince Edward Island where farmland prices are tied closely to the yield and price of potatoes. In the western section of the island, the price of good crop land remained steady and supply and demand were on par. In the eastern part of the island, there was a steady demand as potato processing continued to expand.

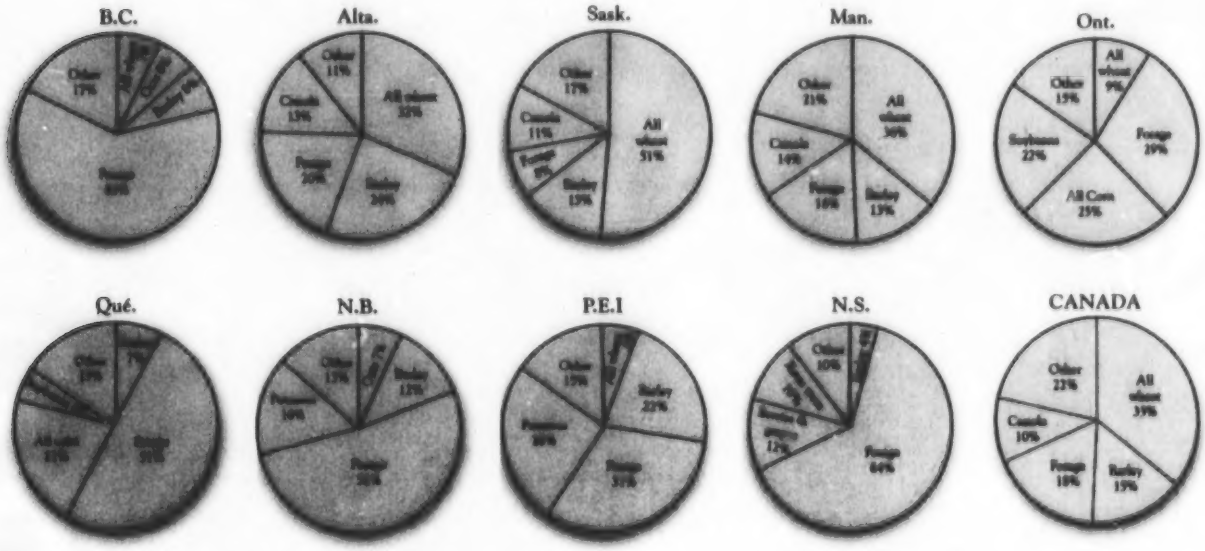


The strength of the dairy industry in Nova Scotia contributed to the 4.1 per cent increase in the value of farmland in that province. Producers' desire to be self-sufficient in grain production was evident following the withdrawal of the Feed Freight Assistance program.

(The factors influencing land values are the observations of Farm Credit Corporation appraisers in the local areas.)

Field crops by province

The following chart is based on the 1996 Census of Agriculture and shows the major field crops grown in each province as well as Canada.



Source: Statistics Canada, Agricultural Profile of Canada, 1996, Catalogue No. 93-356, pages 6,7,8,10,11,13,18,27,34,44 and 45

We welcome your feedback!
Please send your comments/suggestions to:

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Québec: Michel Rousseau (418) 648-7613

Ontario: Tom Nolan (519) 826-2033

Western Canada: Roy Hjelte (306) 780-3489

Service in French: Michel Rousseau (418) 648-7613

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Ce rapport est également offert en français.

FCC SCA
Farm Credit Corporation Société du crédit agricole

Canada

FALL

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Fall 1998

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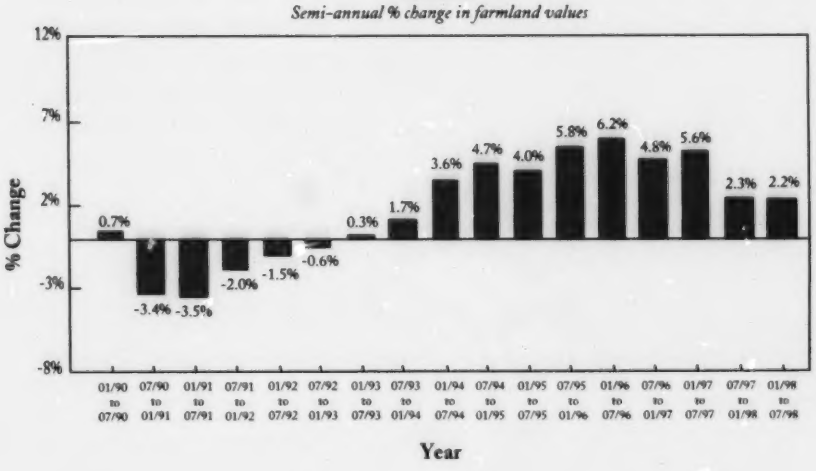
National trends

Farm Credit Corporation (FCC) estimates that Canadian farmland values rose 2.2 per cent from January 1998 to July 1998. This increase represents a continued national upward trend in farmland values, and is similar to the 2.3 per cent increase recorded in the previous six-month period.

Canada

Semi-annual % change in farmland values



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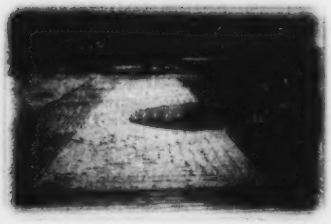

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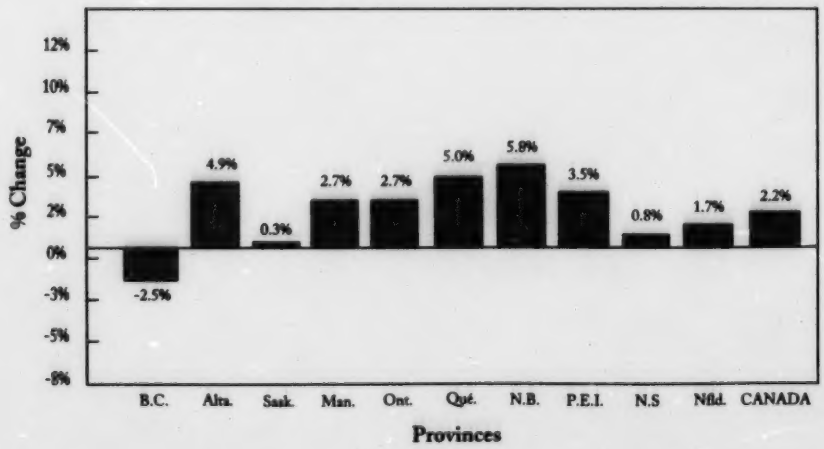
Provincial trends

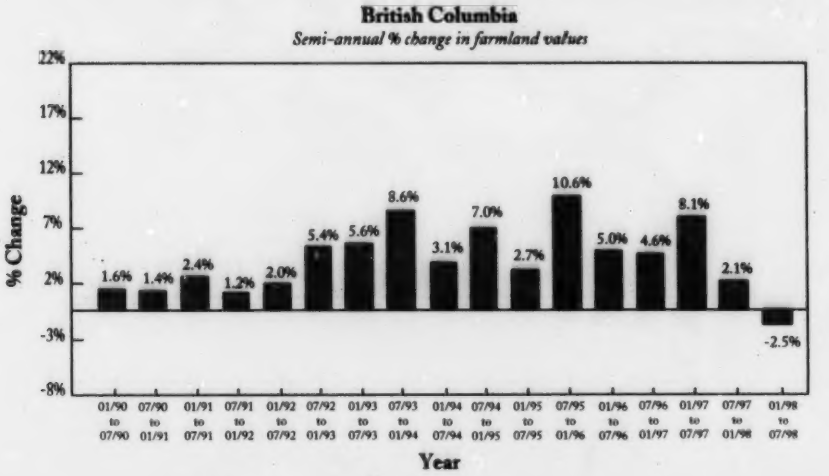
Although the national trend is similar to the previous period, farmland value trends within some provinces have changed significantly, due to different factors in the agricultural economy of each province. New Brunswick, Québec and Alberta recorded semi-annual increases in the five per cent range. Prince Edward Island, Manitoba and Ontario recorded increases of approximately three per cent. Newfoundland and Nova Scotia recorded approximate increases of two and one per cent respectively. Saskatchewan had very little increase. British Columbia is the only province showing a downward trend of 2.5 per cent.

"Farmland value trends within some provinces have changed significantly."

Provincial changes in farmland values are summarized in the following graphs:

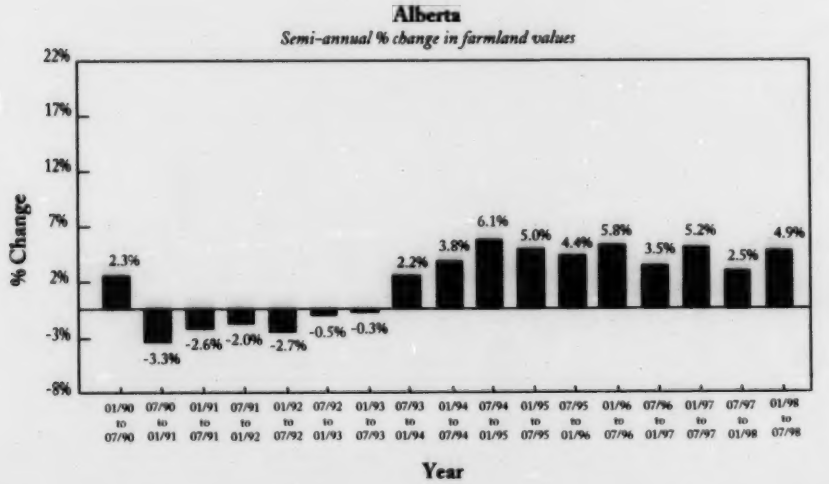
Provincial comparison of farmland values
January 1, 1998 to July 1, 1998





Land values in British Columbia have softened, showing a 2.5 per cent decrease. Demand for vegetable and berry land dropped significantly because of lower commodity prices and a general weakening of the B.C. economy. Demand for farmland throughout B.C. decreased, largely due to reduced opportunities in the forestry sector. There continues to be strong demand for land suitable for vineyards.

"Land values in British Columbia have softened."

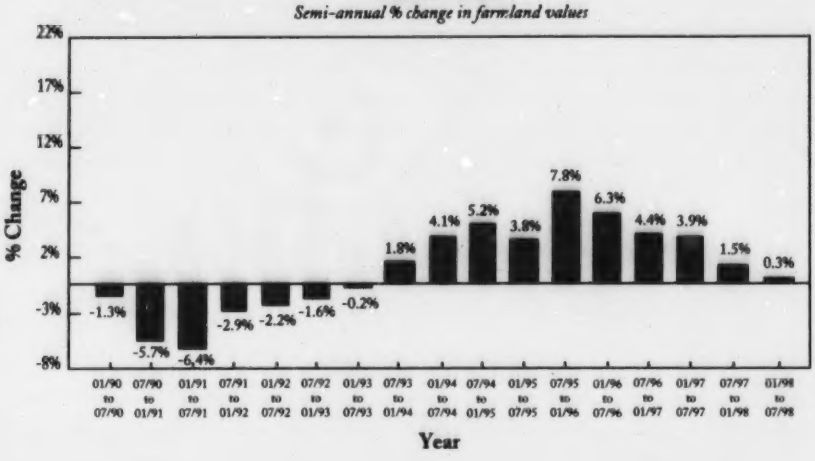


The south and central regions of the province have driven the land price trend in Alberta. The price of irrigated and special crop land in this area is strong, influenced by announcements such as the potato processing plant in Taber. The urban influence of major centers such as Calgary is also extending into the rural areas. The north experienced less optimism and weak-to-stable prices.

Activity in the Saskatchewan land market has slowed down.

Saskatchewan

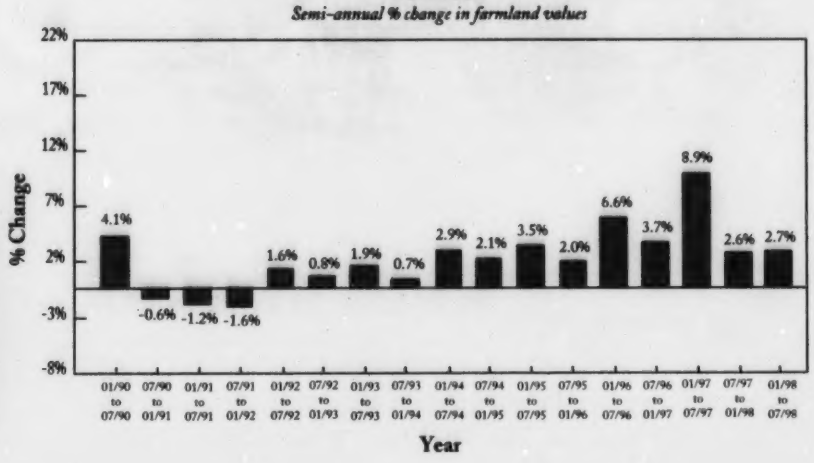
Semi-annual % change in farmland values



There has been little change in Saskatchewan land prices since January of 1998. Purchasers are cautious as a result of lower grain prices. Activity in the land market has slowed down in the last six months. Land prices have leveled off at current values.

Manitoba

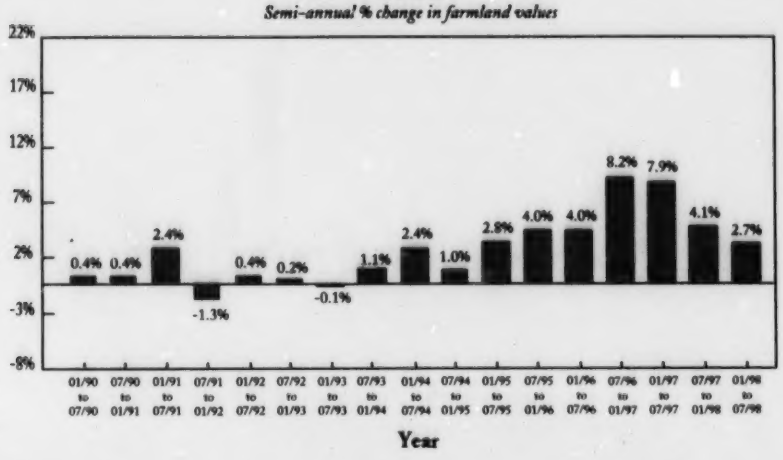
Semi-annual % change in farmland values



The traditional cereal grain-growing areas of Manitoba are not experiencing a significant change in land values. Pockets that are showing positive increases include areas of special crop production with irrigation potential, areas that have had above average crop production in the past year and areas that are diversified into livestock production.

Ontario

Semi-annual % change in farmland values



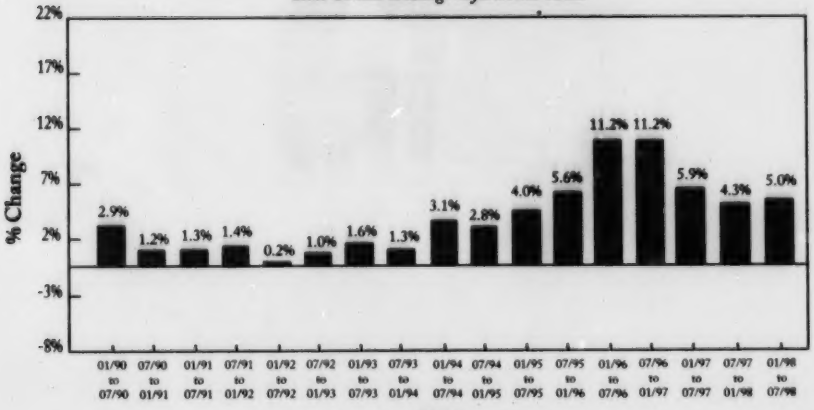
Year

There is a modest upward trend in the price of land in Ontario over the last six-month period. Dry spring weather, which affected the quality of field crops, and falling commodity prices, have reduced interest in purchasing farm land. Prices are still trending upwards in areas of urban influence. Higher prices for dairy quotas are believed to be moderating the demand for land in Eastern and Central Ontario. Land rentals have moderated along with the demand for land due to lower net returns for cash crops. There is a strong demand for small hobby farms and rural residential holdings around London, Stratford, Woodstock and Windsor.

"Higher prices for dairy quotas are believed to be moderating the demand for land in Eastern and Central Ontario."

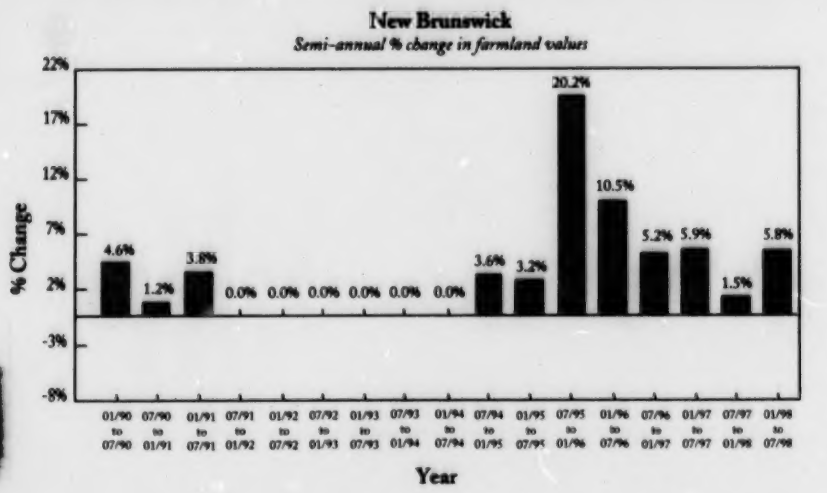
Québec

Semi-annual % change in farmland values



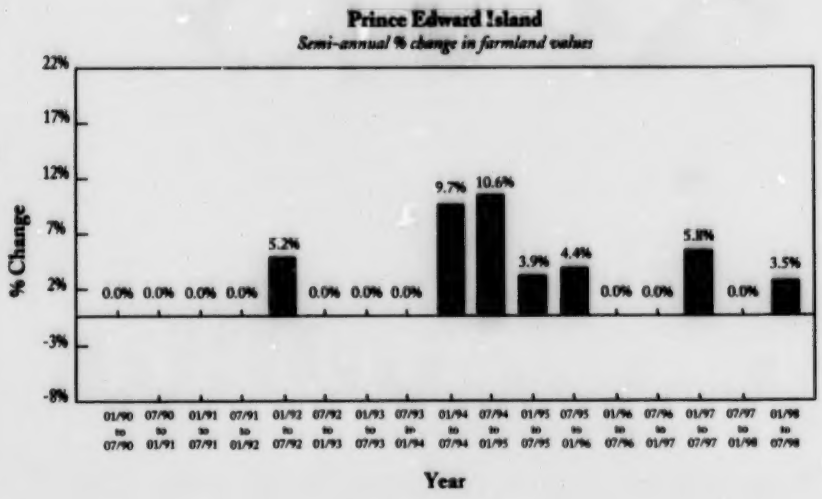
Year

The average value of Québec farmland increased, but the total number of land transactions decreased. The new environmental policy under discussion brings additional pressure on buyers in areas where animal production, mainly hogs, is significant. There was a weakening demand for land in the cash crop areas as declining commodity prices are reducing farmers' net incomes.

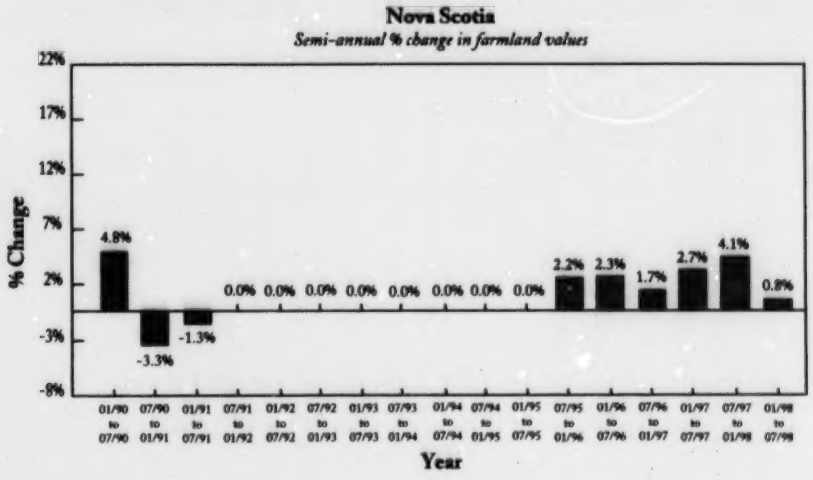


The increase in land values in New Brunswick was due to expansion in the potato sector as well as demand for land in the dairy areas in the southern part of the province. This was caused by the need to produce more grain for livestock as the local farm economy continues to adjust to higher feed grain prices.

In P.E.I., crop rotation continues to drive demand for land.

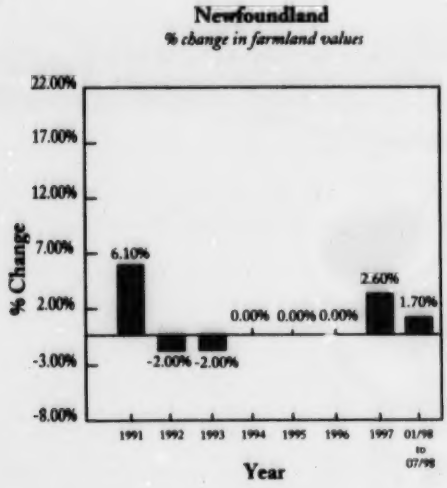


The change in land values in P.E.I. trended upward slightly in the first half of 1998, due in part to activity in the potato industry. Land continues to be in demand for inclusion in a crop rotation program for this sector. Although the rapid expansion of several years ago has slowed, progressive operators continue to be on the lookout for parcels that fit into their operations. This ongoing demand continues to increase land values, but is heavily dependent on the viability of the potato sector.



Drought conditions in Nova Scotia during the 1997 growing period has likely affected expansion plans.

Land values in Nova Scotia showed little change during the period under analysis. Established grain and forage production operators continue to purchase land, however the upward trend has stabilized somewhat. Drought conditions during the 1997 growing period may have reduced farmers' net incomes and made them more cautious in their expansion plans.



For first time, this report contains farmland value trends for Newfoundland. The trend values in the graph prior to 1998 are calculated using Statistics Canada data. Provincial farmland values have experienced an increase over the current period due to the scarcity of high-quality, productive land. The demand for land suitable for forage production and the increased costs of developing land has put pressure on land prices.

The total area of farmland in Newfoundland is relatively small at 108,320 acres, based on the 1996 Census. Approximately 30 per cent of farmland is owned with the remaining 70 per cent leased. Leases are normally long-term agreements with the province and give the lessee the right to use and occupy the land for a fixed rental rate.

The two largest areas of agricultural land in Newfoundland are the East Coast of the Island, near St. John's and the West Coast of the Island near Deer Lake. Land within the Avalon Peninsula is under urban pressure for housing and consequently, freehold land trades higher than leasehold land.

On the West Coast, freehold and leasehold land trades for approximately the same value. Most of the land is used for forage production including cereals for dairy operations. In addition, there are horticultural crops such as strawberries and cole crops (carrots, potatoes, rutabaga). There is a limited supply of land suitable for development and clearing, and development costs are high – up to $2,000 per acre.

Statistics Canada information, adapted from Catalogue No., 21-603, page 12, is used with the permission of the Minister of Industry, as Minister responsible for Statistics Canada. Information on the availability of the wide range of data from Statistics Canada can be obtained from Statistics Canada's Regional Offices, its World Wide Web site at http://www.statcan.ca and its toll-free access number 1-800-263-1136.

Québec's maple syrup industry

The maple sugar industry is definitely an industry worth tapping.

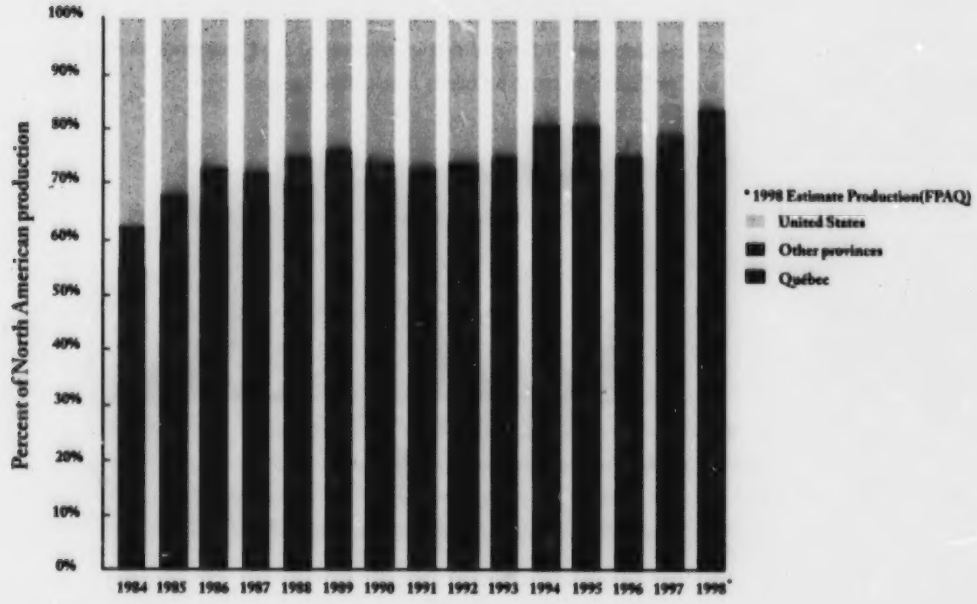
An industry worth "tapping"

Québec's maple syrup industry is dynamic and growing, says the most recent data from the *Fédération des producteurs acéricoles du Québec* (FPAQ) (Québec Maple Producers Federation).

According to FPAQ:

- there are approximately 10,000 maple syrup producers in the province of Québec;
- Québec supplies 86 per cent of Canadian maple syrup production and 70 per cent of worldwide production;
- 80 per cent of Québec maple syrup is exported to international markets in more than 32 countries;
- Québec maple exports were the province's fourth largest farm product export in 1996, totalling almost $90 million; and
- under a joint plan administered by FPAQ, more than 95 per cent of Québec's production of bulk syrup is now inspected and graded.

Growth in the maple syrup industry in Québec, Canada and the United States



Source: Québec Bureau of Statistics (1997)

The industry is developing rapidly, due in large part to the following factors:

- attractive market prices over the past few years;
- addition of new taps due to an increase in available woodland. It is now possible to lease woodlots from the government or from forestry companies;
- problems with production surplus have been resolved through direct marketing and through diversification with value-added products;
- quality control standards and grading and inspection of bulk maple syrup have helped to meet the growing expectations of local and international markets;
- the exchange rate has had a tremendous impact on exports; and
- establishment of new operations and modernization of existing ones to meet new technological standards.

Some of these factors could put pressure on medium-term prices, particularly if worldwide supply exceeds demand. This could lead to a surplus of maple products in one given year that would have to be stored and then marketed with the following year's production.

Establishing a maple operation

According to Germain Gourde, Credit Officer with Farm Credit Corporation, "Establishing a maple operation requires an in-depth market analysis and a detailed business plan." Several factors that could have tremendous impact on yield and profitability must be taken into consideration:

- soil type, tree age and diameter;
- altitude of maple stands and exposure to sun and wind;
- changes in climatic conditions; and
- quality and age of equipment, and tubing, and whether they have been properly maintained.

Recent progress in technology has led to higher efficiency, but also higher cost of production. Improvements include the use of various types of fuel, pipeline harvesting, reverse osmosis used to reduce evaporation time and the amount of fuel required to carry out the process, as well as computerized systems used to monitor production parameters and the condition of processing facilities.

Average cost of establishing a maple operation

According to Julien Bédard, Sales Research Officer with FCC's Eastern Appraisal Centre, the average cost of establishing a maple operation with approximately 10,000 taps (250 taps per hectare) is around $276,000.

"Establishing a maple operation requires an in-depth market analysis and a detailed business plan."

	Anticipated cost
urchase (40 hectares)	$80,000
l installation, road construction, wells, septic system	$15,000
uction of evaporator shed (sugar shack) and adjoining cabin	$40,000
p collection equipment	$83,000
ssing equipment for the production of syrup	$58,000
	$276,000

Gross income over the past five years averaged approximately $3.85 per tap (between $2.09 and $4.76). Based on this average, one can expect to net $2.35 per tap to cover payments and salaries, including the producer's salary and the residual for growth. Investment costs of approximately $28 per tap on purchased land do not seem to dissuade future producers from purchasing maple syrup operations.

Average gross revenue/tap
(revised data)

Source: ***Fédération des producteurs acéricoles du Québec (Québec Maple Producers Federation), 1997***

"The industry is experiencing rapid economic growth and expansion."

The future

According to Daniel Charron, Management and Economic Advisor, Estrie Regional Branch of the *Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec* (MAPAQ), "the industry is experiencing rapid economic growth and expansion. However, considering the investments made by producers over the past two years and those projected in the future, prices will need to be strong in the next few years to make the operation profitable."

Climate remains an important factor in the future of the industry. More than seven million taps were covered with ice during the ice storm of 1998. Producers filed claims for six million taps in trees with partial or complete crown dieback, according to data from the MAPAQ (the Québec Department of Agriculture, Fisheries and Food). Data suggests that, depending on the level of damage to these trees (starting at 40 per cent crown dieback), some may produce less maple sap in the next four to five years and some may even die.

Despite the impact of the storm, experts agree that, with the amount of land available, it will be possible to increase the number of commercial taps by another 50 to 100 per cent. The maple sugar industry is definitely an industry worth "tapping"!

We welcome your feedback!
Please send your comments/suggestions to:

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Ce rapport est également offert en français.

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